

Overview of IFRS S1 and IFRS S2

January 2025



On 26 June 2023 the International Sustainability Standards Board (ISSB) released its first two International Sustainability Disclosure Standards (IFRS SDS or the Standards) that become effective for periods beginning on or after 1 January 2024. Together they mark the start of a new era of requiring companies to make sustainability-related disclosures.

Background

The ISSB was launched by the IFRS Foundation at COP26 with the aim of improving the consistency and quality of sustainability reporting across the globe, by matching the importance of sustainability reporting with the current regulations around financial reporting. To reinforce this message, the ISSB sits alongside the International Accounting Standards Board (IASB) and is overseen by the trustees of the IFRS Foundation and the Monitoring board.



The ISSB brings together the Climate Disclosure Standards Board (CDSB) and the Value Reporting Foundation (VRF), the name behind the Integrated Reporting Framework and the Sustainability Accounting Standards Board (SASB) Standards.

“The global economy needs common reporting standards to reduce fragmentation and drive comparability in climate-related financial data. Built upon the foundation of the TCFD framework, the ISSB Standards provide a global baseline for companies to disclose decision-useful, climate-related financial information—information that is critical for creating more transparent markets, helping achieve a smooth low-carbon transition, and building a more resilient and sustainable global economy.”



Mary Schapiro, Head of the Task Force on Climate-related Financial Disclosures (TCFD) Secretariat and Vice Chair for Global Public Policy at Bloomberg L.P.

International support for global standards

Sustainability reporting is becoming increasingly important for stakeholders, with many larger companies already adopting some form of sustainability reporting to accommodate the demands of their key stakeholders. One of the key challenges faced by many investors and other stakeholders is they have not had access to good quality and globally comparable sustainability information, a stark difference to financial data. The developments being made by the ISSB are therefore game changing for sustainability reporting globally.

This is recognised by the international community. The ISSB has international support and is backed by the G7, G20, the International Organization of Securities Commissions (IOSCO) and the Financial Stability Board, amongst others.

The standards issued by the ISSB will help combat the challenges of companies “greenwashing”, meaning stakeholders will be able to make better-informed decisions with confidence.



Key things to know about IFRS Sustainability Disclosure Standards

Headline	Description
Same reporting date	Reporting will be required at the same time and for the same period as the financial statements.
Materiality – investor focused	Materiality is the same as the IFRS definition, commonly referred to as “Financial Materiality”. Information is deemed material if omitting, misstating or obscuring it could reasonably be expected to influence the users decision.
Report location	The sustainability report will be included as part of a company’s general purpose financial reports. Report location in a company’s general purpose financial report will be subject to regulatory or other requirements that applies to the company.
Forward-looking information	Disclosures need to provide information on the impact of sustainability-related risks and opportunities on the company’s strategy, business model and financial statements over the short, medium and long-term.
TCFD-Aligned	The four pillars of governance, strategy, risk management and metrics & targets from the Taskforce on Climate-Related Financial Disclosures (TCFD) have been used to develop the Standards. See page 6 for more details on the four pillars
Statement of compliance	A company is required to make an explicit and unreserved statement of compliance when the sustainability-related financial disclosures comply with all the requirements of IFRS SDS.
Consolidation of existing bodies	Standard draws content from other current sustainability standard setters such as the TCFD, SASB, CDSB and the VRF.



Overview of the standards released

The two new sustainability Standards issued are as follows:

1. **IFRS S1 ‘General Requirements for Disclosure of Sustainability-related Financial Information’** – the main objective of this Standard is to disclose all information about sustainability-related risks and opportunities that could reasonably be expected to affect a company’s prospects.
2. **IFRS S2 ‘Climate-related Disclosures’** – this Standard focuses on specific climate-related information to be disclosed.



Introducing IFRS S1 - General Requirements for Disclosure of Sustainability-related Financial Information

IFRS S1 provides the basic requirements for sustainability disclosures, which should be used with IFRS S2 as well as the future Standards the ISSB releases. The Standard:

- requires disclosure of material information about sustainability-related risks and opportunities with the financial statements, to meet investor information needs
- requires industry specific disclosures and refers to the industry-based SASB standards for guidance when identifying disclosures about sustainability-related risks and opportunities.
- refers to sources to help companies identify sustainability-related risks and opportunities and information (for everything other than in the scope of IFRS S2)
- requires disclosures that enable investors to understand the connections between the sustainability-related risks and opportunities and the sustainability-related financial disclosures and financial statements.
- is GAAP diagnostic.

The four pillars of TCFD

- 1. Governance** – Companies will need to report the processes, controls, and procedures that are used to manage sustainability-related risks and opportunities. The report will need to identify those individuals responsible and describe management’s role in identifying, assessing and managing sustainability-related risks and opportunities.
- 2. Strategy** – Disclose what management assesses to be the company’s sustainability risks and opportunities and how management is addressing these by:
 - (1) Identifying the company’s sustainability-related risks and opportunities
 - (2) Disclosing the impact on the company including its business model, decision making and financial planning
 - (3) Explaining the resilience of the company to these risks.

The Standard provides details on how a company should report on sustainability risks and opportunities:

- Identify the risks and opportunities – describe the risk/opportunity, including the time horizon over which each could be reasonably expected to have a financial effect
- Define the time horizon – how does the company identify short, medium, and long-term.

Companies are required to disclose the current and anticipated effects of such issues on its value chain and how these issues will impact the financial statements over time.





3. Risk Management – Explaining how the company identifies sustainability-related risks and opportunities. This includes an explanation of the extent to which these risk management activities are integrated into the overall management risk process.

Concerning risks, disclosing information on:

- 1) How the company assesses the likelihood and impact of such risks
- 2) How the company prioritises such risks
- 3) The input parameters considered during the risk assessment process
However, data sources
- 4) Whether the process is consistent with prior years.

Concerning opportunities, how the company:

- 1) Assesses and prioritises
- 2) Monitors, manages, and mitigates.

4. Metrics and Targets – Disclose how the company measures, monitors, and manages its sustainability-related risks and opportunities. Companies will need to disclose targets set relating to sustainability risks and opportunities identified and the metrics used to assess progress being made.

Assurance over these disclosures is not a mandatory requirement under these standards (this would be dictated by local jurisdictions). However, companies will still need to disclose whether the measurement is validated or assured by an external party.

Introducing IFRS S2 – Climate-related Disclosures

The two Standards are designed to be applied together. However, IFRS S2 has been developed to capture climate-specific requirements which includes:

- Strategy disclosures that distinguish between physical and transitional risks
- Disclosure of their plans to respond to climate-related risks and opportunities, including how climate-related targets are set and any targets it is required to meet by law or regulation
- Companies should perform scenario analysis to explain how various climate-related events may impact the business in the future
- Climate-related metrics and target disclosures should include:
 - Cross-industry metrics that are relevant to all companies e.g. greenhouse gas emissions, refer to our publication on ‘What are sustainability scope 1, 2 and 3 emissions?’ for more information on greenhouse gas emissions.
 - Industry-based metrics relevant to companies within the related industries and
 - Company specific metrics considered by the board or management when measuring progress towards set targets.



Summary of timing and relief

Timeline

26 June 2023 – Release of IFRS S1 and IFRS S2 and SASB with climate-related metrics aligned to IFRS S2

The Standards are effective for annual reporting periods beginning on or after 1 January 2024, but companies can adopt them early if they wish.

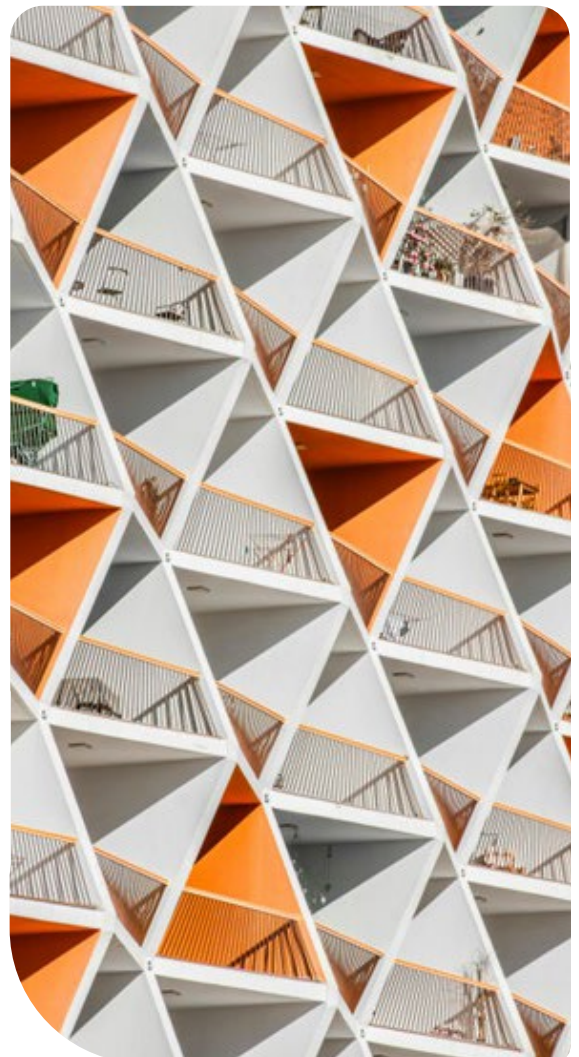
Now the Standards are issued, regulators around the world will work to integrate the ISSB into their own mandatory reporting programs. Local jurisdictions will be responsible for determining local mandatory reporting timelines.

Reliefs

The ISSB has agreed that companies can adopt a climate-first approach, giving them the relief to only report on climate-related risks and opportunities in their first reporting period. This will give companies an additional year to report on the full range of sustainability-related risks and opportunities. Note this does not override any local jurisdiction requirements that are in place on sustainability reporting.

Other reliefs for the first-year application include exempting a company from:

- Reporting on comparative information
- Disclosing scope 3 emissions
- Using the GHG protocol (so long as another methodology is used)
- Reporting at the same time as the related financial statements. This means companies will be permitted to report their sustainability-related financial disclosures after their financial statements, allowing for more time to collate and report on sustainability.



Practical next steps for preparing to report

Get Ready – Be prepared for the possibility of reporting on 2024 information – remember the sustainability report will have to be reported on at the same time as your financial statements which will cause increased pressure on year-end reporting (the ISSB exemption noted above may be allowed for the first reporting period, but is dependent upon local jurisdictions and regulators).

Understand your current position – evaluate your current governance structure and sustainability strategy to ensure it is fit for purpose going forwards and perform gap analysis to identify areas where work is needed to enable compliance with the Standards.

Create a sustainability roadmap – After understanding your current position, establish how you can address the gaps identified, adopting a timeline of key milestones for your sustainability journey, identifying individuals within your organisation responsible and any potential constraints.

Ensure good quality data – ensure adequate controls and processes are in place now to help collate and analyse good quality sustainability data that will compliment your disclosures

Familiarise yourself with the Standards – Companies who are already reporting on sustainability information will likely have an advantage but it's important to note there will be some differences in the Standards which you will need to identify. Not having a good understanding of all the applicable standards could result in lengthy reports containing duplication or omitted information resulting in non-compliance.

Educate your organisation – Ensure all levels of your business have a sound understanding on the importance of sustainability to help drive, grow and implement you sustainability strategy, ensuring there is buy-in at the top of your organisation to encourage the correct mindset to filter down.



How can we help

We hope you find the information in this article helpful in giving you some insight into IFRS Sustainability Disclosure Standards IFRS S1 and S2. If you would like to discuss any of the points raised, please speak to your usual Grant Thornton contact or visit www.grantthornton.global/locations to find your local member firm.



Dr. Osama El-Bakry
Senior Partner
Head of Audit & Assurance
T +971 4 388 9925
E osama.elbakry@ae.gt.com



Jay Raney
Partner
Accounting Advisory
T +971 (4) 388 9925
E jay.raney@ae.gt.com



Anshul Bajaj
Director
Financial Reporting Advisory Services
T +971 58 570 5710
E Anshul.bajaj@ae.gt.com

Abu Dhabi

Unit 2, Floor 14
Sila Tower
ADGM Square
Al Maryah Island
Abu Dhabi, UAE

T +971 2 666 9750

F +971 2 666 9816

Sharjah

Al Bakr Tower
Office 305
7/9 Al Khan Street
Sharjah, UAE

T +971 6 525 9691

F +971 6 525 9690

Dubai

The Offices 5
Level 3, Office 303
One Central, DWTC
PO Box 1620
Dubai, UAE

T +971 4 388 9925

F +971 4 388 9915



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